



CITY OF RYE FINANCE COMMITTEE MEMORANDUM

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Date: August 17, 2006
To: O. Paul Shew, City Manager
From: Jono Peters, Chair
Re: Proposed Real Estate Transfer Tax

At the request of the City Council, in May 2006 the Finance Committee appointed a sub-committee to be led by Paula Gamache and consisting of Paula, Norman MacMaster, and David Mullane. The purpose of the sub-committee was to revisit the proposal made by Councilman Seitz for a real estate transfer tax. The sub-committee's findings were discussed at the Finance Committee meetings of June and July, and this memorandum serves as a summary of those findings and discussions.

One of strongest arguments in favor of a real estate transfer tax may be that Rye's lack of a commercial tax base means it is important to find revenue sources beyond property taxes to alleviate the burden on home owners, and that this argument must be made to Albany.

1) Councilman Seitz has proposed a 5% tax on property sold within one year of ownership, declining annually by .5% to zero after year 10.

The subcommittee believes that Councilman Seitz's proposal is not workable for the following reasons. First, the formula in Councilman Seitz's proposal may be discriminatory, and we have asked the Corporation Counsel for an opinion on this matter. Second, we believe the proposal is not reasonable in scope, given what other communities charge. Third, the proposal may encounter stiff headwind in Albany that would prevent its passage into the desired legislation. In this respect, the perception of Rye in Albany is that we are an affluent community with the ability to fund ourselves through property taxes. Any request for approval of a real estate transfer tax that does not mirror the formula used by other communities is most likely to be denied. Fourth, the proposal may be difficult to implement.

As a practical matter, the City Comptroller has told us that the Finance Department does not have the resources (systems or people) to monitor and apply "sliding scale" rules in the implementation and collection of a transfer tax.

2) The Finance Committee reported in a memo dated June 7, 2005 that it could not support a real estate transfer tax.

In revisiting this conclusion, the Finance Committee has decided that the City Council should be provided with a potentially acceptable (to Albany) formulation for a transfer tax. Assemblyman George Latimer has expressed his willingness to take a request from the City Council for a new tax to Albany and do his best to gain the necessary votes. Keep in mind, however, that Rye just

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received approval for a 3% hotel occupancy tax, which could make approval of a request for an additional tax more difficult to accomplish.

Based on our analysis of the facts related to this issue, we believe that to have any chance of passing, a proposed transfer tax would need to exhibit the following characteristics: (i) non-discriminatory; (ii) structured according to the boilerplate of similar legislation; (iii) designated for long-term capital uses, and (iv) include a sunset clause.

In addition to the above four criteria, we also believe a transfer tax should be modest, not to exceed 25 basis points, in order for it to be palatable to the community, sellers, buyers, and Albany. The City Assessor reported that for 2003, 2004 and 2005 total real estate sales were \$259 million; \$330 million, and \$346 million respectively. (Note that the numbers for 2005 may be incomplete at the time of this writing). A 25 basis point real estate transfer tax would have provided \$647,500 (2003); \$825,000 (2004) and \$865,000 (2005).

While there are a number of acceptable designations for transfer tax proceeds, we consider infrastructure to be a priority and an area that could benefit significantly from such levels of increased funding. In light of the pavement management study and the bridge studies recently published, we feel that a worthy target would be to at least double the current spending for capital road repair and maintenance. This would provide for a more aggressive repair schedule, which in turn would reduce the backlog of deferred maintenance. We would also stress that any real estate transfer tax proceeds should supplement, and not be in lieu of, the annual budgeted allocation for capital road repair and maintenance.

The Finance Committee would like to acknowledge the efforts of the sub-committee, namely Paula Gamache, Norman MacMaster, and David Mullane, in research, analysis, and presentation of findings to the Committee for informed discussion. It is our hope and intent that the City Council will find the information provided in this memorandum useful in their decision-making process.

- The City of Rye Finance Committee